

A Comparative Empirical Examination of Outward Direct Investment from Four Asian Economies: China, Japan, Republic of Korea and Taiwan

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Abstract

In this paper we compare and contrast the determinants of outward direct investment from China with those from Japan, South Korea and Taiwan. We examine both descriptively as well as econometrically the various motives and factors behind the investment abroad from these four Asian economies. The hypotheses we are testing include the market-seeking hypothesis, the natural resource-seeking hypothesis, the technology acquisition hypothesis and the human capital hypothesis. We examine outward direct investment for China for the years 1991-2006, Japan for 1983-2007, Korea for 1980-2007 and Taiwan for 1968-2007.

Our results using the full set of determinants yield uniform support for the market-seeking hypothesis. The natural resource-seeking motives hold for Japan and Korea, while the technology acquisition hypothesis seems relevant for Taiwan. Chinese investments tend to go to destinations with poorer labor quality. In addition, openness is important for Japanese investment abroad, while distances deter investment from China and Korea.